1976 sales

$26 million

1972 - $11,980,000 • 1973 - $17,600,000 • 1974 - $21,680,000 • 1975 - $22,280,000

ELKS STORES LIMITED
1976 ANNUAL REPORT
YEAR ENDED JANUARY 29TH, 1977

Corporate Directory

OFFICERS

SAMUEL ELKIND
Chairman of the Board

MANUEL ELKIND
President and Chief Executive Officer

ROBERT E. CARDWELL
Vice-President and General Manager

J. FREDRIC DUNCAN
Secretary-Treasurer

JOHN R. VAN CAMP
Controller

DIRECTORS

°LEWIS B. BAKER, Q.C.
Partner
Hall, Baker, Berman, Rosenblatt and Goodman

°MANUEL ELKIND
President and Chief Executive Officer

SAMUEL ELKIND
Chairman of the Board
Elks Stores Limited

°GEORGE S. MANN
President
Unicorp Financial Corporation

ARNOLD NAIMAN
Merchandising Consultant

PAUL HENRY
President
Henry, Richardson, Ruder and Finn Ltd.

PHINEAS SCHWARTZ
Partner
Goodman and Goodman

°member of audit committee

HEAD OFFICE
1198B Caledonia Road
Toronto, Ontario M6A 2W5

TRANSFER AGENT
The Royal Trust Company

BANKERS
Bank of Montreal

AUDITORS
Laventhol and Horwath

LEGAL COUNSEL
Goodman and Goodman

SHARES LISTED
Toronto Stock Exchange

Elks Stores Limited

Highlights

	THIS YEAR	LAST YEAR
SALES	$26,579,590	$22,285,165
NET INCOME	442,102	375,333
EARNINGS PER SHARE	0.60	0.51
CASH FLOW	1,623,022	1,216,792
CASH FLOW PER SHARE	2.19	1.64
WORKING CAPITAL	2,663,477	1,784,897
SHAREHOLDERS' EQUITY	3,733,979	3,258,067

6 months
26 wks July 31
137,000 or 19
Sales $11.4 mill

President's Message

To Our Shareholders:

This report, covering the 52 weeks ending January 29, 1977 is our company's fifth annual accounting to its shareholders. These five years have seen a dramatic change in the scope and quality of our business, but no single year has produced more concrete evidence of growing corporate strength than the one which is the subject of this review.

Financial Review

During the year sales increased by $4,300,000 climbing to a record $26,580,000 from $22,285,000 in fiscal 1976. Net income in the year rose to $442,000 or 60 cents per share from $375,000 or 51 cents per share.

The notes accompanying the financial statements show that the company has exceeded allowable profit margins as defined by the Anti-Inflation Board. A corrective compliance plan is being filed for returning the excess to the marketplace within the current year.

Notwithstanding the fact that net income rose by close to 18 per cent in the face of controls, management is not satisfied with the level of profits achieved on the very commendable sales performance. We are convinced that in the current year, steps already taken and programs in the process of being implemented will increase profit margins to a more acceptable level while remaining well within the updated guidelines as currently applied by the Anti-Inflation Board.

An examination of the Balance Sheet indicates a substantial improvement in working capital which rose by approximately $850,000 to over $2,600,000. This improving liquidity position will continue to be of immense value to our operations.

Year-end inventory increased by slightly more than $3,000,000 over last year to $9,626,000 as part of a deliberate plan to cope with a unique situation. Confronted with the imposition of new government import quotas last fall, we prudently received and froze in our warehouse approximately $3,000,000 of stock in December and January for the spring season. As a consequence, we have avoided the pressures facing other retailers, suppliers and importers. We have been able throughout the months of March, April and May to make regular scheduled deliveries of this merchandise to our stores.

Operating Revue

Renewed emphasis was directed throughout the year to the strengthening of senior and middle management talents. Many personnel changes were undertaken, responsibilities redefined and better inventory controls and other efficiencies implemented.

Of major significance was the closing of warehouses in Ottawa and Montreal with new receiving, storage and distribution facilities centralized at the Toronto-based warehouse which is part of our head office location. A new systems manual has been devised to impose better discipline and control over merchandising, accounting and documentation procedures.

During the year five locations were closed and four new units were opened. Subsequent to year-end, two units were opened bringing the total number of company outlets to 66 at time of writing. Two additional units are planned to be opened during the balance of the current year.

I would be remiss if I didn't comment upon the immense success of our stores located at the Eaton Centre in Toronto, and Jackson Square in Hamilton. These units have established remarkable levels of achievement since their respective openings in early February and mid-April and we expect them to be major contributors to profits in the years ahead.

We embarked upon a concerted and highly successful advertising program, most of which was produced in-house. This campaign, in keeping with our merchandising concept, was directed at the younger market and stressed quality, style and price. It is a principal tenet of our merchandising philosophy that the younger age group can, through volume sales, be provided with good value in high fashion at the prices they can afford.

The costs of implementing all of these changes and innovations were in large measure absorbed within the year with a resultant temporary but lowering impact on profits.

Future

It is our firm belief that we have exactly the right combination of merchandising philosophy; store locations; marketing, warehousing and distribution talent; and inventory and financial controls to improve our productivity and our profits. The first quarter results, which have already been published, support this belief with sales, at $6,509,000, more than $1,380,000 ahead of last year. Our ability to turn sales into profits is also demonstrably better, with net income rising to $60,000 in the quarter from $19,000 in the same period a year ago.

Excellence is our objective in all aspects of our operations, from our relationship to our customers and our suppliers to the way we run our business. We are pleased with the strides we have already taken in this direction but there is still much to be achieved.

Our specific goals this year are to improve our profit margins and maintain our excellent associations within the trade. Our retail outlets are constantly being examined on the basis of store-by-store contribution, and non-productive units have been closed. Benefits from the move to centralized warehousing, and renewed efforts toward better management of inventory should assist in achieving our target of significantly higher margins by year-end.

Acknowledgement

I am pleased to announce that during the past year, Mr. Arnold Naiman was appointed a Director of your company. Mr. Naiman has a strong background in the merchandising field and is highly respected in the industry and is a director of a major U.S. retail company. His presence on your Board adds significant depth to its expertise.

Elks Stores Limited, in its fifth year as a public company, has matured greatly in many vital areas of its operations. Your Board of Directors believes the company has a solid footing from which to advance to greater profitability in the future.

On behalf of the entire Board, I wish to thank all the men and women of our management and staff who contributed so loyally and effectively to the company's success throughout the year.

MANUEL ELKIND
President & Chief Executive Officer

Toronto, Ontario,
June 1, 1977.

Consolidated Statement of Income and Retained Earnings

Year ended January 29, 1977

	1977	1976
Sales	$26,579,590	$22,285,165
Expenses:		
Cost of sales and operating expenses	24,101,075	20,145,074
Depreciation and amortization	980,035	847,662
Interest on long-term debt	277,516	243,428
Other interest	313,665	298,337
	25,672,291	21,534,501
Income before taxes	907,299	750,664
Income taxes	465,197	375,331
Net income (Note 12)	442,102	375,333
Retained earnings, beginning of year	1,933,047	1,557,714
Retained earnings, end of year	$ 2,375,149	$ 1,933,047
Earnings per share (Notes 9 and 12)	60¢	51¢

See accompanying notes.

Consolidated Balance Sheet

January 29, 1977

ASSETS

	1977	1976
Current:		
Cash	$ 298,507	$ 567,628
Accounts receivable—trade	1,142,521	1,327,363
Advances to an affiliated company	57,016	—
Inventory	9,625,594	6,450,641
Prepaid expenses and sundry assets	412,865	366,247
Marketable securities, at cost which approximates market value	93,162	—
	11,629,665	8,711,879
Equipment and leasehold improvements (Note 2)	3,592,807	3,635,485
Other:		
Deferred costs	512,259	522,157
Sundry	—	68,162
	512,259	590,319
	$15,734,731	$12,937,683

See accompanying notes.

On behalf of the Board:
MANUEL ELKIND (*Director*)
LEWIS B. BAKER, Q.C. (*Director*)

LIABILITIES

	1977	1976
Current:		
Bank indebtedness (Note 4)	$ 1,400,000	$ 2,000,000
Accounts payable and accrued liabilities	6,733,169	4,285,009
Income taxes	431,026	279,973
Current portion of long-term debt (Note 5)	401,993	362,000
	8,966,188	6,926,982
Long-term debt (Note 5)	2,539,077	2,458,032
Deferred income taxes	495,487	294,602
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	1,358,830	1,325,020
Retained earnings	2,375,149	1,933,047
	3,733,979	3,258,067
	$15,734,731	$12,937,683

AUDITORS' REPORT

To the Shareholders of
Elks Stores Limited

We have examined the consolidated balance sheet of Elks Stores Limited as at January 29, 1977 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Except that provision for excess revenue has not been made as explained in Note 12, in our opinion, these consolidated financial statements present fairly the financial position of the company as at January 29, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

May 17, 1977.
Toronto, Ontario.

LAVENTHOL AND HORWARTH
Chartered Accountants.

Consolidated Statement of Changes in Financial Position

Year ended January 29, 1977

	1977	1976
Financial resources were provided by:		
Working capital provided from operations (Note 10)	$1,623,022	$1,216,792
Issue of common shares	33,810	60
Increase in long-term debt	—	360,000
Long-term investment, now current	68,162	—
	1,724,994	1,576,852
Financial resources were used for:		
Additions to fixed assets	615,995	824,509
Less increase in long-term debt	468,640	625,517
	147,355	198,992
Deferred costs	311,464	293,715
Repayment of long-term debt	387,595	219,654
Acquisition of long-term investments	—	18,000
	846,414	730,361
Increase in working capital (Note 11)	878,580	846,491
Working capital, beginning of year	1,784,897	938,406
Working capital, end of year	$2,663,477	$1,784,897

See accompanying notes.

Notes to Consolidated Financial Statements

January 29, 1977

1. Summary of significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned.

Inventory:

Inventory is priced at the lower of average cost and market determined by the retail inventory method; market being net realizable value less normal profit margin.

Equipment and leasehold improvements:

These assets are stated at cost. Depreciation is being provided on equipment on a straight-line method over a seven-year period. Leasehold improvements are being amortized over the terms of the leases and initial options to a maximum of 10 years.

Deferred costs:

It is the company's accounting policy to capitalize as deferred costs certain expenditures related to new store openings. These costs are amortized over a thirty-six month period commencing with the date of the store opening.

Display and promotional expenses are capitalized as deferred costs and are amortized over a three-year period commencing in the first fiscal year following the year of acquisition.

2. Equipment and leasehold improvements:

	Current year	Previous year
Equipment	$2,789,319	$2,639,225
Leasehold improvements	3,589,579	3,267,551
	6,378,898	5,906,776
Accumulated depreciation and amortization	2,786,091	2,271,291
	$3,592,807	$3,635,485

3. Amortization of deferred costs:

Deferred costs amortized during the current year and included in the consolidated statement of income and retained earnings amount to $321,362 (previous year—$313,200).

4. Bank indebtedness:

Bank indebtedness and bank loans shown in Note 5 are secured by a floating charge debenture on all the company's assets.

5. Long-term debt:

	Total	Current portion	Long-term
Bank loans, 2% above bank prime	$2,500,000	$372,000	$2,128,000
Shareholders, 11½%, due August 31, 1978	339, 722	—	339,722
Chattel mortgages	73,501	17,994	55,507
Conditional sales contract	27,847	11,999	15,848
	$2,941,070	$401,993	$2,539,077

Principal payments required in each of the next five fiscal years are as follows:

1978	$ 401,993
1979	884,271
1980	539,299
1981	528,167
1982	523,340
Subsequent to 1982	64,000
	$2,941,070

Although the bank loans of $2,500,000 are evidenced by demand promissory notes, arrangements have been made with the bank to retire the principal amount of the loan at the rate of $25,000 per month to September 1977 and $43,000 per month thereafter.

6. Capital stock:

Authorized:

2,000,000 Common shares, without par value

Issued:

	Number of shares issued	Amount
Balance, January 31, 1976	740,356	$1,325,020
Shares issued during year on exercise of stock options	5,008	33,810
Balance, January 29, 1977	745,364	$1,358,830

Employee stock option plan:

The company has set aside 23,214 common shares for its employee stock option plan. These stock options are exercisable at prices ranging from $6.75 to $13.50 over the next ten years.

7. Remuneration of directors and senior officers:

The aggregate direct remuneration for the year paid or payable to directors and senior officers amounts to $192,430 (1976—$164,734).

8. Long-term lease obligations:

All of the company's store locations are held on leases entered into for periods from three to twenty-five years. Most of these leases are for minimum rentals and contain percentage-of-sales clauses. The minimum annual rentals for the next five years on long-term leases in effect at January 29, 1977 are:

Year ended—January 28, 1978	$1,622,000
January 27, 1979	1,553,000
January 26, 1980	1,506,000
January 31, 1981	1,423,000
January 30, 1982	1,341,000

9. Earnings per share:

Earnings per share figures were calculated using the weighted daily average of shares outstanding during the respective year. Average number of shares outstanding during the 1977 fiscal year was 741,898 (1976—740,356). No material dilution in earnings per share would result from the exercise of employee stock options.

10. Working capital provided from operations:

	Current year	Previous year
Net income	$ 442,102	$ 375,333
Add items not involving a current outlay of working capital:		
Depreciation and amortization	980,035	847,662
Deferred income taxes	200,885	(6,203)
	1,180,920	841,459
	$1,623,022	$1,216,792

11. Changes in components of working capital:

	Current year	Previous year
Increase (decrease) in current assets:		
Cash	($ 269,121)	$ 309,603
Account receivable, affiliated company	57,016	—
Accounts receivable, trade	(184,842)	67,368
Inventory	3,174,953	(289,656)
Prepaid expenses and sundry assets	46,618	110,942
Marketable securities	93,162	—
	2,917,786	198,257
Increase (decrease) in current liabilities:		
Bank indebtedness	(600,000)	400,000
Accounts payable and accrued liabilities	2,448,160	(992,930)
Income taxes	151,053	101,844
Current portion of long-term debt	39,993	(157,148)
	2,039,206	(648,234)
Increase in working capital	$ 878,580	$ 846,491

12. Anti-Inflation Program:

The company is subject to the restraints on income, dividends and compensation provided by the Anti-Inflation Act. This legislation with respect to income and compensation is effective from October 14, 1975 and is scheduled to be in force until December 31, 1978.

During the base period the company experienced unusually low margins upon which compliance must be measured in the fiscal year ended January 29, 1977. The company has exceeded allowable margins and has apparent excess revenue in the amount of $174,000. The company intends to reduce prices during the fiscal year ending January 28, 1978 to bring profits within allowable margins and has filed a compliance plan with the Anti-Inflation Board setting out the procedures to be followed to achieve these results.

Although the accounting guidelines of the Canadian Institute of Chartered Accountants recommend that the effect of any corrective action to eliminate excess revenue be reflected in the same period as the excess revenue arose, management is of the opinion that the effect of the corrective action should be reflected in the period in which the prices will be reduced.

Had the excess revenue been recorded in the current fiscal year, sales would be reduced by $174,000, net income by $90,480 and earnings per share by 12¢.

Elks Stores Limited

Six Year Summary

(000's omitted)

	1976	1975	1974	1973	1972	1971
Sales	26,580	22,285	21,682	17,647	11,982	9,263
Net Income	442	375	301	598	535	354
Earnings per share*	0.60	0.51	0.41	0.81	0.90	0.65
Earnings % to Sales	1.66	1.68	1.39	3.39	4.47	3.82
Cash Flow	1,623	1,217	1,022	1,111	751	506
Number of shares outstanding at year end (000's)	745	740	740	740	740	545
Inventory	9,626	6,451	6,740	6,159	3,625	2,632
Retail Inventory Turns	1.7	1.7	1.7	1.8	1.9	—
Additions to fixed assets	616	825	1,236	1,490	664	302
Bank indebtedness	1,400	2,000	1,600	1,600	990	233
Accounts payable	6,733	4,285	5,277	4,200	1,741	2,737
Long term debt	2,539	2,458	1,692	1,408	471	70
Shareholders' equity	3,734	3,258	2,883	2,582	2,408	779
Return on Equity %	11.8	11.5	10.4	23.2	22.2	45.4
Working Capital	2,663	1,785	938	1,207	1,517	(188)
Working Capital Ratio	1.3	1.3	1.1	1.2	1.4	0.9
Number of Stores at year end	66	67	66	58	41	39
Number of square feet of retail space—TOTAL	283	296	292	258	205	183
Sales per selling unit	403	333	329	304	292	238
Sales per square foot—TOTAL	93.90	75.29	74.25	68.40	58.45	50.62
—SELLING	117.40	94.00	93.00	86.00	73.00	63.00

*Based on weighted average number of shares outstanding.

Elk's

ELKS STORES LIMITED
Corporate Headquarters
1198B Caledonia Road
Toronto, Ontario M6A 2W5
(416) 789-7881